

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1475 - SB 1775

February 16, 2014

SUMMARY OF BILL: Exempts from state and local sales tax any tangible personal property or services sold to disabled veterans who have been honorably discharged from any branch of the armed services of the United States, provided the disabled veteran has a service-connected disability that is determined by the United States Veterans' Administration to constitute a 100 percent permanent total disability. Requires any eligible disabled veteran to submit an application and evidence of permanent disability to the Department of Revenue (DOR). Requires the Commissioner of DOR to issue an identification card or other document to eligible disabled veterans that declares the veteran is entitled to the proposed sales tax exemption. Authorizes the Commissioner to promulgate rules and regulations to effectuate the purpose of this bill.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$6,222,400

Decrease Local Revenue – \$2,539,200

Assumptions:

- According to the U.S. Department of Veterans Affairs (USDVA) data, the U.S. veteran population is approximately 21,973,000 and 394,514 of these veterans (1.7954 percent) receive disability compensation based on a 100 percent service-related disability rating.
- The proposed exemption is not limited to permanently disabled veterans residing in Tennessee.
- Based on the USDVA's projections, it is estimated that there will be 516,728 veterans residing in Tennessee in 2014, and 4,091,387 residing in the states that border Tennessee. These numbers are assumed to remain constant.
- The number of permanently disabled veterans is estimated to be 9,277 in Tennessee ($516,728 \times 1.7954\%$), and 73,457 in bordering states ($4,091,387 \times 1.7954\%$).
- Seventy-five percent, or 6,958 ($9,277 \times 75.0\%$), of Tennessee disabled veterans will utilize the proposed exemption. The number of veterans from bordering states who would otherwise purchase tangible personal property and services in Tennessee and who will utilize the proposed exemption is estimated to equal one percent, or 735 ($73,457 \times 1\%$), for a total of 7,693 ($6,958 + 735$) disabled veterans utilizing the proposed exemption.

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- The minimum compensation for veterans with 100 percent service-related disability rating is \$2,858 per month or \$34,296 per year for 2014. The average income for such veterans is estimated to be \$35,000, and the total income for veterans utilizing the proposed exemption is estimated to be \$269,255,000 (7,693 x \$35,000).
- According to DOR, and based on the Bureau of Labor Statistics data, U.S. households typically expend 45.67 percent of income on tangible personal property and services. Therefore, it is estimated that disabled veterans utilizing the proposed exemption will spend annually \$122,968,759 (\$269,255,000 x 45.67%) on tangible personal property and services.
- Seventy-five percent, or \$92,226,569 (\$122,968,759 x 75.0%), of this amount will be spent on tangible personal property and services subject to the sales and use tax.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [(5.5%/7.0%) x 4.603%].
- The net recurring decrease in state sales tax revenue is estimated to be \$6,222,351 [(\$92,226,569 x 7.0%) - (\$92,226,569 x 7.0% x 3.617%)].
- The total recurring decrease in local sales tax revenue is estimated to be \$2,539,173 [(\$92,226,569 x 2.5%) + (\$92,226,569 x 7.0% x 3.617%)].
- Any amount of forgone state revenue is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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